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C E N T R A L I N T E L L I G E N C E A G E N C Y
O F F I C E O F N A T I O N A L E S T I M A T E S

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STAFF MEMORANDUM 24-57: (Draft for the Board)

SUBJECT: Political Crisis in Chile *

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1. Conclusions. Chile is in the throes of a political crisis, brought on by the Ibanez administration's determination to deal with the country's chronic inflationary problem through the imposition of a stabilization program. This program appears to have caused severe economic sacrifices in the lower and middle classes. Between 28 March and 3 April, there occurred in Chile's two leading cities popular riots protesting an increase in transit fares. The army was called out to restore order and in the process 167 Chileans were killed. Although the government has renewed bus service at the old fares, potentially explosive social and political tensions remain.

2. At issue is the government's anti-inflation program, the key question being: who is going to pay for it? Rightist political forces in control of the Senate with whom President Ibanez is apparently identified on the stabilization issue -- have so far been reluctant to accept a proportionate share of the sacrifice involved in the program,

* The substance of this memorandum has been discussed informally with OGI.

SECRET

including a more equitable tax structure. The center and leftist parties controlling the lower house have taken the line that the workers' austerity burden should be reduced at the expense of the right. Since the two houses will probably have difficulty in agreeing when the new Congress debates the program next month, the Administration will be faced with these three alternatives:

- a. It can attempt to impose the program upon the Chilean population by force.
- b. It can reduce the severity of the austerity measures by a moderate enforcement of the program.
- c. It can abandon the program completely and return to virtual runaway inflation.

On balance, we believe that alternative (b) will be the one which Ibanez will follow. However, if Ibanez should follow either alternative (a) or (c), we believe that he would have no better than an even chance of surviving the remaining 18 months of his term. Adoption of the second alternative will not solve Chile's economic difficulties, and a period of economic and political unrest appears likely.

3. Background. Chile's severe inflation was the principal issue in the 1952 presidential election, won by elderly Carlos Ibanez del Campo. Despite his repeated efforts at economic reform, inflation became runaway. The peso, 132 to one dollar at the time of Ibanez' inauguration, was 743 to the dollar by mid-1955.

SECRET

4. A comprehensive economic stabilization program was then initiated in January 1956 on the advice of an American investment firm, and it was been moderately successful, largely because of support from the conservative parties and the relatively high price of copper. The cost-of-living rise last year was held down to 37% as compared with over 80% in 1955. Nevertheless, the real income of workers is steadily declining, and the program has placed the heaviest burden on the middle and lower classes. In general, the wage-price stabilization law has not been strictly enforced, but it has been fairly effectively enforced in relation to wages. Recent price increases, previously delayed to give an appearance of price stability before the 3 March congressional elections, have been particularly unpopular. Moreover, world copper prices have declined*, and this is threatening a budgetary deficit and creating a serious drain on foreign exchange reserves, already at a low level.

5. In the elections, the parties supporting the government's economic program retained a majority in the Senate, but those opposing the program obtained a slight edge in the Chamber of Deputies. The distribution of votes among the parties suggests that there was a considerable protest vote based upon economic discontent. The Agrarian Laborite Party,

* The price of copper, which averaged 50 cents per pound in the first quarter of 1956, had fallen to 30 cents by March 1957.

SECRET

SECRET

the group most closely identified with the government, lost about half its strength. The relatively moderate parties, the middle class Radical Party and the liberal Catholic National Falange, collected the protest vote. However, some satisfaction with the government's program was evident in less substantial gains for the conservative parties.

6. Probable Developments. Ibanez probably still hopes to make the stabilization program an accomplishment of his administration. It is likely, however, that implementation will be slowed by increased political tensions building up to the 1958 presidential elections, the evident popular resistance to continued restrictive measures, and the decline in the price of copper. Despite his authoritarian bent, Ibanez has governed for four years by constitutional methods and he probably will try to do so in the future. Factors influencing him include a popular attachment to constitutional government and the preference of the army for an apolitical role. However, if inflation gets out of hand and popular discontent with stabilization efforts increases, Ibanez might as a last resort attempt authoritarian rule. Even in such a case popular resistance might be so great as to prevent any effective stabilization.

7. Consequently, some compromises are likely to be made on stabilization objectives, and outside aid may be required. Some amelioration of the present economic difficulties appears possible before the end of Ibanez' term. However, if copper prices remain at

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their present low level or if they decline further, it is certain that there will be no early solution of Chile's economic problems.

8. Despite their involvement in the recent riots, the Communists do not now pose a serious challenge to the government. The government's denunciation of their part in the recent disorders* probably has caused them to lose some prestige, and this action may be a prelude to stricter control of Communists, along with other oppositionists. However, if economic difficulties should mount and if the government should fail to take vigorous anti-Communist measures, the Communists could effectively exploit any new outbreaks similar to those of recent weeks.

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* Although the recent trouble was started by the predominantly non-Communist Federation of Chilean Students, extremist elements including Communists were very active participants in the disorders.

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